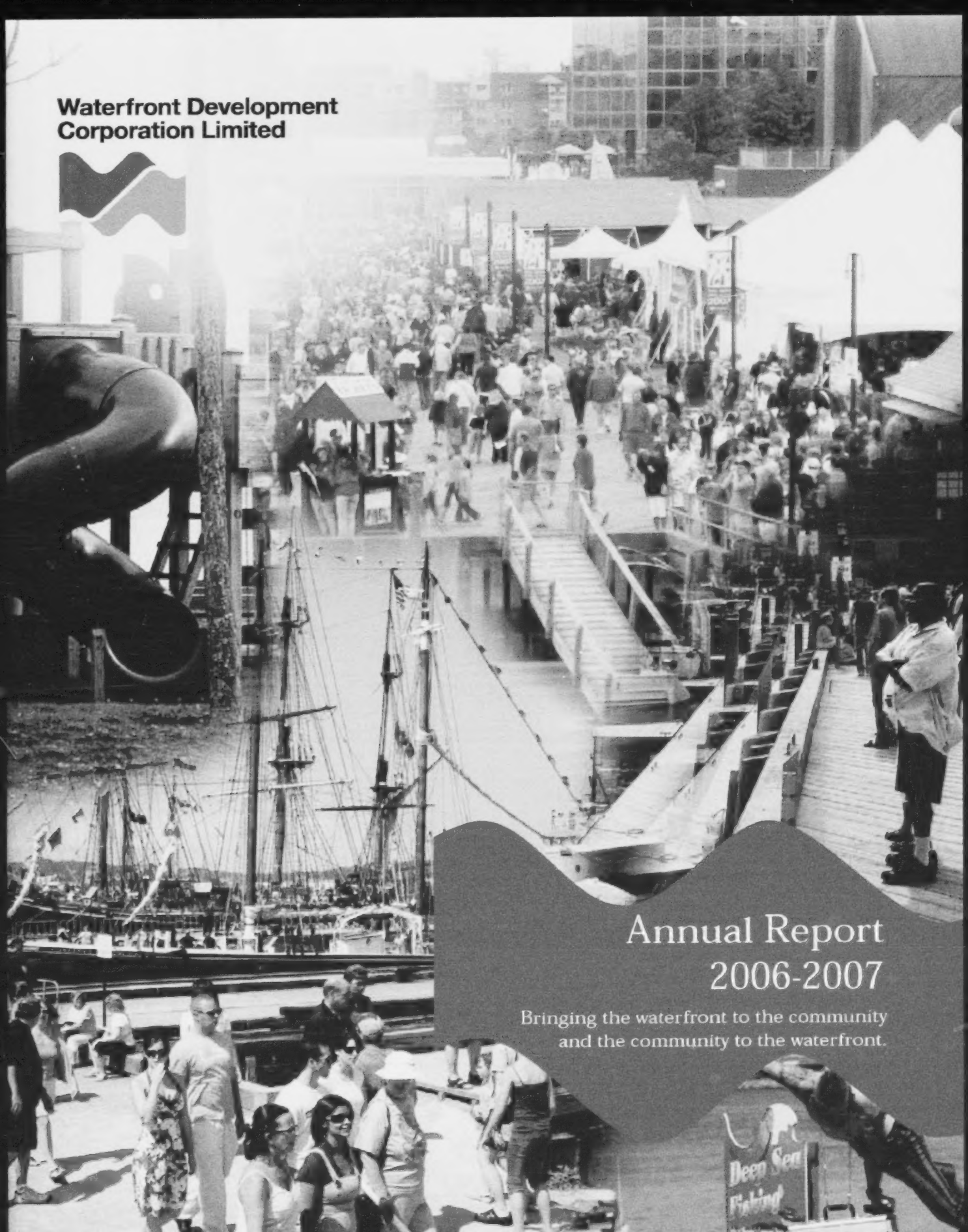
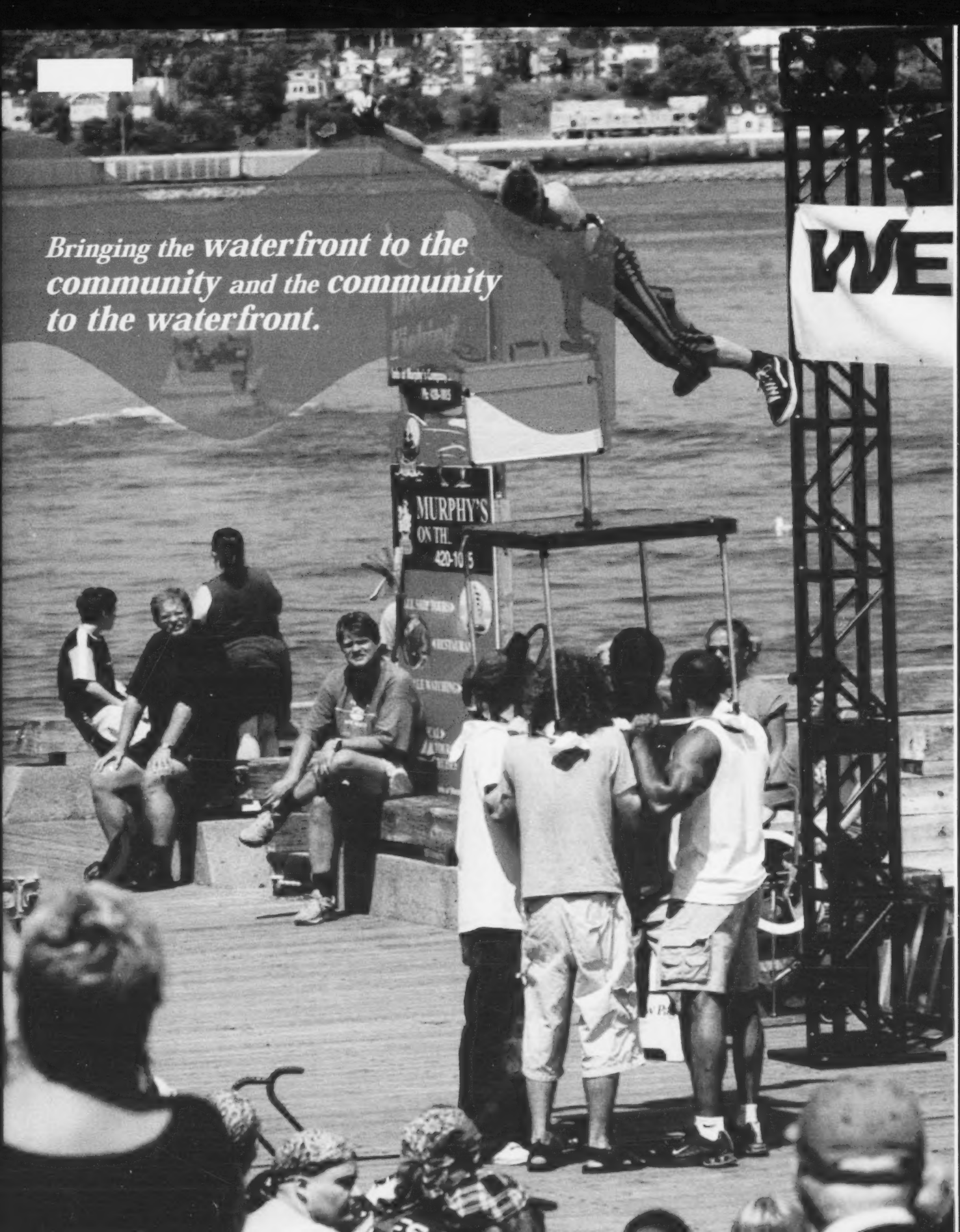
Waterfront Development Corporation Limited



Annual Report 2006-2007

Bringing the waterfront to the community and the community to the waterfront.


Bringing the waterfront to the community and the community to the waterfront.
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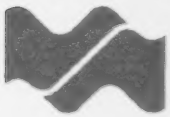
Waterfront Development Corporation Limited

Annual Report 2006-2007

Waterfront Development
Corporation Limited



Fiscal Year:

April 1, 2006 - March 31, 2007

Auditors

Grant Thornton LLP

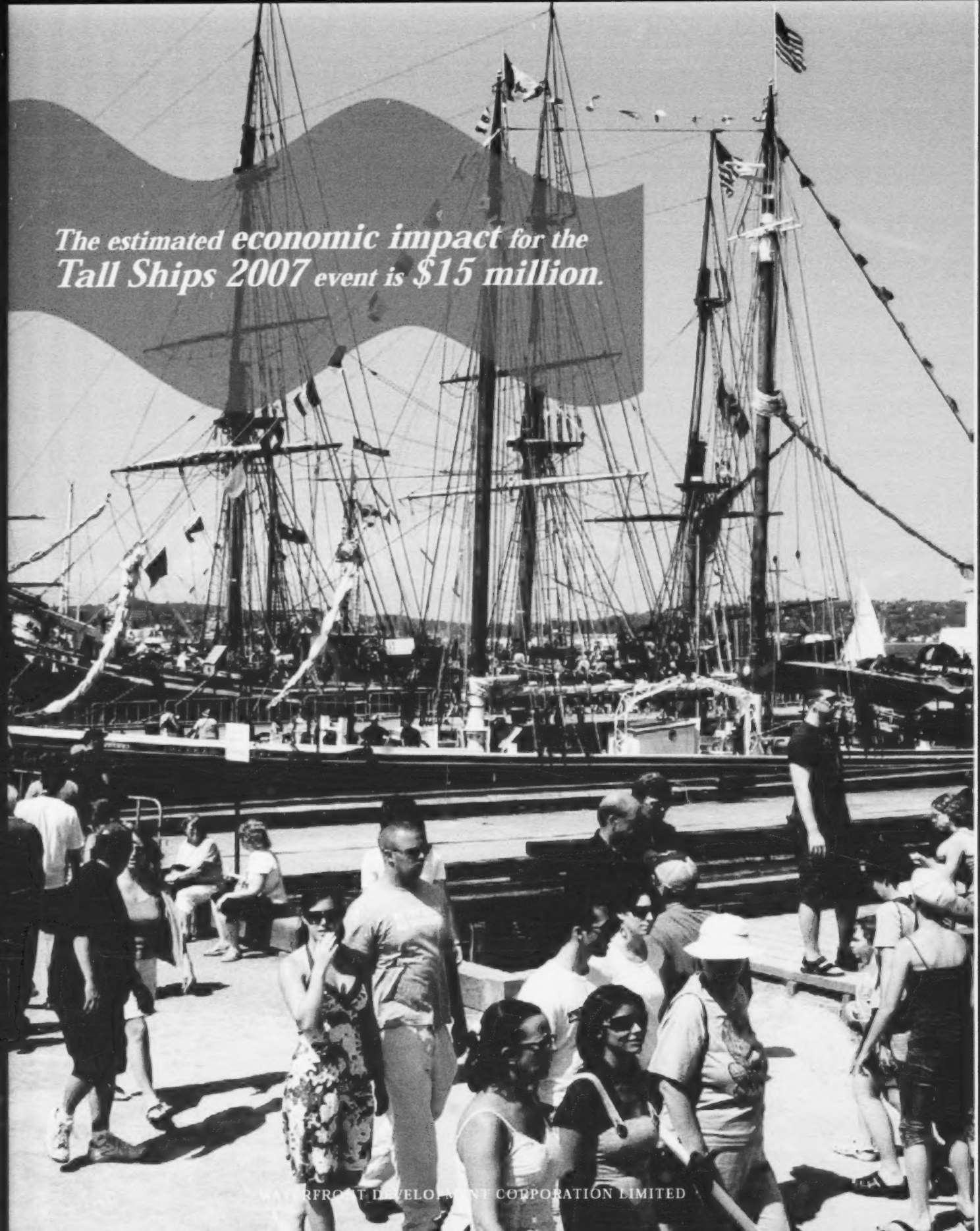
Board of Directors

Eric Thomson, Chair
George Archibald
Alan Barkhouse
Bill Gates
Ken Giffin
Ruth Goldbloom
David Harrison
Jack Leedham
Brian Lugar
Don McIvor

Staff

Bill Campbell, Acting President
Eric Burchill
Gerard Cheeke
Dennis DeChenne
Carolyn Gilbert
Bill Gray
Heather Russell
Jim Simpson
Leanne Strathdee
Jim Terrio
David Whynacht
John Wright

Production: Krylen Design
Photo Credit: Nova Scotia Tourism, Culture and Heritage
Waterfront Development Corporation Limited


The estimated economic impact for the
Tall Ships 2007 event is $15 million.

Message from the Corporation

Waterfront Development Corporation Limited (WDCL) has been engaged in rejuvenating Nova Scotia waterfronts for more than three decades. This has been accomplished with vital support and financial investment from all three levels of government and the private sector. Nova Scotians are proud of their sea-faring heritage and take pride and ownership in the historic waterfronts. Through focus on the development of the land at the water's edge, WDCL will continue to bring the community to the waterfront and the waterfront to the community.

Public and private investment through policy, programs and investment has been extensive and critical to the success of the waterfronts. And while there has been significant progress in the designated waterfronts of Bedford, Dartmouth, Halifax and Lunenburg, WDCL will continue to ensure that we respond to new opportunities, changing markets, environmental imperatives, financial challenges and public opinion.

Projects of WDCL continue a tradition of quality developments and programs to achieve public policy objectives and best and mixed-use of the waterfronts. In 2006 these included: the Queen's Landing Project which combines the creation of a permanent home for the *HMCS Sackville*, Canada's Naval Memorial, and the expansion of the Maritime Museum of the Atlantic with a commercial development complex; Salter Block Project, a mixed-used development on the Halifax waterfront which has now received planning approval; creation of the province-wide-Tall Ships Nova Scotia Festival; completion of important sections of Dartmouth Harbourwalk; marine infrastructure in Bedford and Halifax to promote recreational boating; and, in association with the Town of Lunenburg a Business Plan to ensure the continuation of a working waterfront for this designated UNESCO world heritage site, and important milestone for this historic marine town.

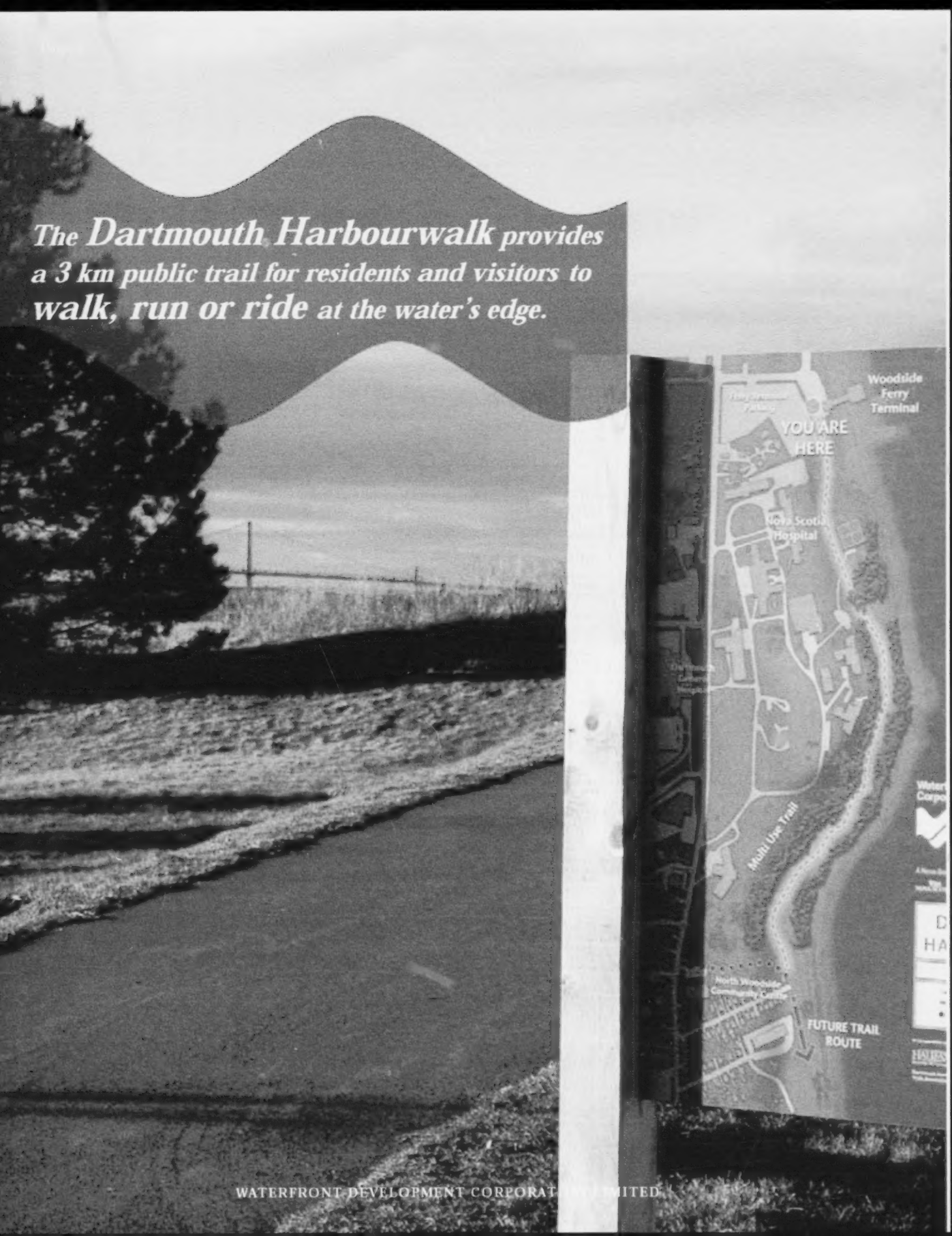
Developing waterfronts that all Nova Scotians and their guests come to visit and enjoy has been our largest achievement. The Harbourwalks in Bedford, Dartmouth and Halifax have been hugely popular and successful in providing public access to the harbour's edge. A striking example is that Halifax's waterfront has become the number one visitor destination in the Province. To build upon this, we are creating festivals to provide family oriented activities and events, and new programs designed to make Halifax Harbour waterfronts a number one destination in North America.

The Board of Directors and staff of the Corporation look forward to the years ahead and to continuing the transformation our waterfronts as public venues for all Nova Scotians.

Eric Thomson
Chair
WDCL Board

Bill Campbell
Acting President
WDCL

The **Dartmouth Harbourwalk** *provides a 3 km public trail for residents and visitors to* **walk, run or ride** *at the water's edge.*



Mandate

Waterfront Development Corporation Limited oversees the long-term development and mixed-use re-development and revitalization of the waterfronts in Bedford, Dartmouth, Halifax and other designated waterfronts in Nova Scotia.

Mission

To serve as champion of a dynamic vision and to plan, coordinate, promote and develop properties, events and activities on designated waterfronts around Halifax Harbour and other designated waterfronts in Nova Scotia.

Strategic Goals

The Corporation's strategic goals include providing infrastructure, opportunity and support for public and private investment that will enhance Halifax Harbour and designated waterfronts as places to live, do business, invest and visit. By enhancing the quality of the waterfronts for residents and visitors, the Corporation creates the opportunity for continuing economic growth by creating increased leisure traffic, meeting and convention activity, attracting new festivals and events, and additional residential, institutional and commercial development. An emphasis is placed on quality development and programs that will make all Nova Scotians proud of their capital region and province, and encourage people to visit Nova Scotia.

Financial Highlights

Fiscal 2006/2007 marked another strong financial performance for the Corporation with revenue of $3.7 million and a surplus before transfers to special funds of $920,000. Parking revenue continues to represent the most significant income stream accounting for in excess of 55% of the Corporation's annual revenue.

While this revenue source has historically been a pillar in the Corporation's financial model, it presents challenges going forward as our mandate and the related Halifax waterfront development plan will use parking space converted to non-revenue generating public space and other development.

The Corporation continues to maintain dedicated funds as part of its overall financial management strategy. The Infrastructure Renewal Fund, established for the renewal or replacement of public facilities, has accumulated $2.8 million through an annual $400,000 transfer and interest on the cumulative balance. A Special Events and Festivals Fund was established in 2005 and presently has a $250,000 balance. Bedford infill operations continue to maintain an excess of receipts over development costs and at March, 31 2007, had an unspent balance of $2.2 million. This cumulative amount has been deferred and will be a credit against future development costs.

Fiscal 2006/2007 marked the first full fiscal year of management of the Corporation's Lunenburg assets. One building and wharf were sold and additional sale transactions are expected to be complete in fiscal 2007/2008. Consistent with Provincial policy, the net proceeds from the sale of these assets were transferred to the Province as a repayment of its investment in the Lunenburg Waterfront assets.

The Corporation expended over $1 million for the purchase and construction of long-term assets during the year. Of this, $506,000 was funded through a capital grant from the Province. The Corporation does have the ability to finance assets through its own credit facility provided the acquisition, is part of an approved capital budget. The Corporation has a $6 million credit facility guaranteed by the Province.

Fulfilling the Corporation's mandate, while improving the overall vitality of the area and region, has implications to certain categories within the Corporation's budgets. Public space capital requirements and ongoing maintenance costs, in concert with lost parking space, as mentioned above, will begin to constrain the Corporation's financial flexibility when compared to prior years. As a Corporation owned by the Crown, the financial options are influenced by the financial policies of the Province.

WDCL works with Partners to develop public areas on the Halifax Harbour waterfronts for all to enjoy.
WATERFRONT DEVELOPMENT CORPORATION LIMITED

Coordination and Planning

Queen's Landing

The Queen's Landing Project combines the creation of a permanent home for the *HMCS Sackville*, Canada's Naval Memorial and an expansion of the Maritime Museum of the Atlantic and private development. The Corporation continued working with a range of public sector stakeholders and a private sector developer, Armour Group Limited, to complete the feasibility study, and federal, provincial and municipal governments to obtain support and financing for the public sector components of the development project.

Salter Street Block

The Salter Block Project is an exciting mixed-use development proposed for the Halifax Waterfront. The project continued through the municipal development approval process for the duration of the fiscal year. WDCL also continued negotiations with the proposed developer, the Centennial Group, relating to a land lease and further refinements to the design concept.

Dartmouth Harbourwalk

Construction was completed for the Dartmouth Cove section of the Dartmouth Harbourwalk trail which stretches from Old Ferry Road to Alderney Drive. Detailed engineering analysis for a new pedestrian crossing over the mouth of the Shubenacadie Canal was also completed. WDCL is partnering with HRM to complete the remaining phases of the trail system, which will stretch from Alderney Landing to the Woodside Ferry Terminal. Construction of the pedestrian crossings of the CN rail line and the pedestrian bridge for the mouth of the Shubenacadie Canal are scheduled to be completed in 2007-2008.

Phase II Bedford Waterfront Project

WDCL continued to await the commencement of a municipal planning strategy amendment process for Phase II of the Bedford waterfront. HRM has proposed a concept to locate a terminal associated with the proposed fast ferry system within the Phase II development. The in-fill project, which provides an environmentally sound disposal area for pyretic slate, continued its operation creating an additional acre of new land for future public access and development opportunities.

Public Marine Infrastructure

The Corporation continued its ongoing program of expansion and development of additional public marinas for berthing boats in Halifax and Bedford in 2006-2007. The expansion of these facilities increases opportunities for the general public to access marine recreational opportunities (boat launch and marinas) along the Halifax Harbour waterfronts.

Rotary Project

Construction of the Rotary Look-off at South Battery Park on the Halifax waterfront was completed in 2006. This was a joint project between the Corporation and three Rotary Clubs in the region. The facility commemorates the 100th Anniversary of Rotary International and provides a valuable public amenity on the Halifax waterfront. The performance platform and look-off provides a stage for entertainers in the summer season, and an opportunity to view George's Island and the Halifax Harbour from a prime waterfront location.

Halifax Harbour Plan

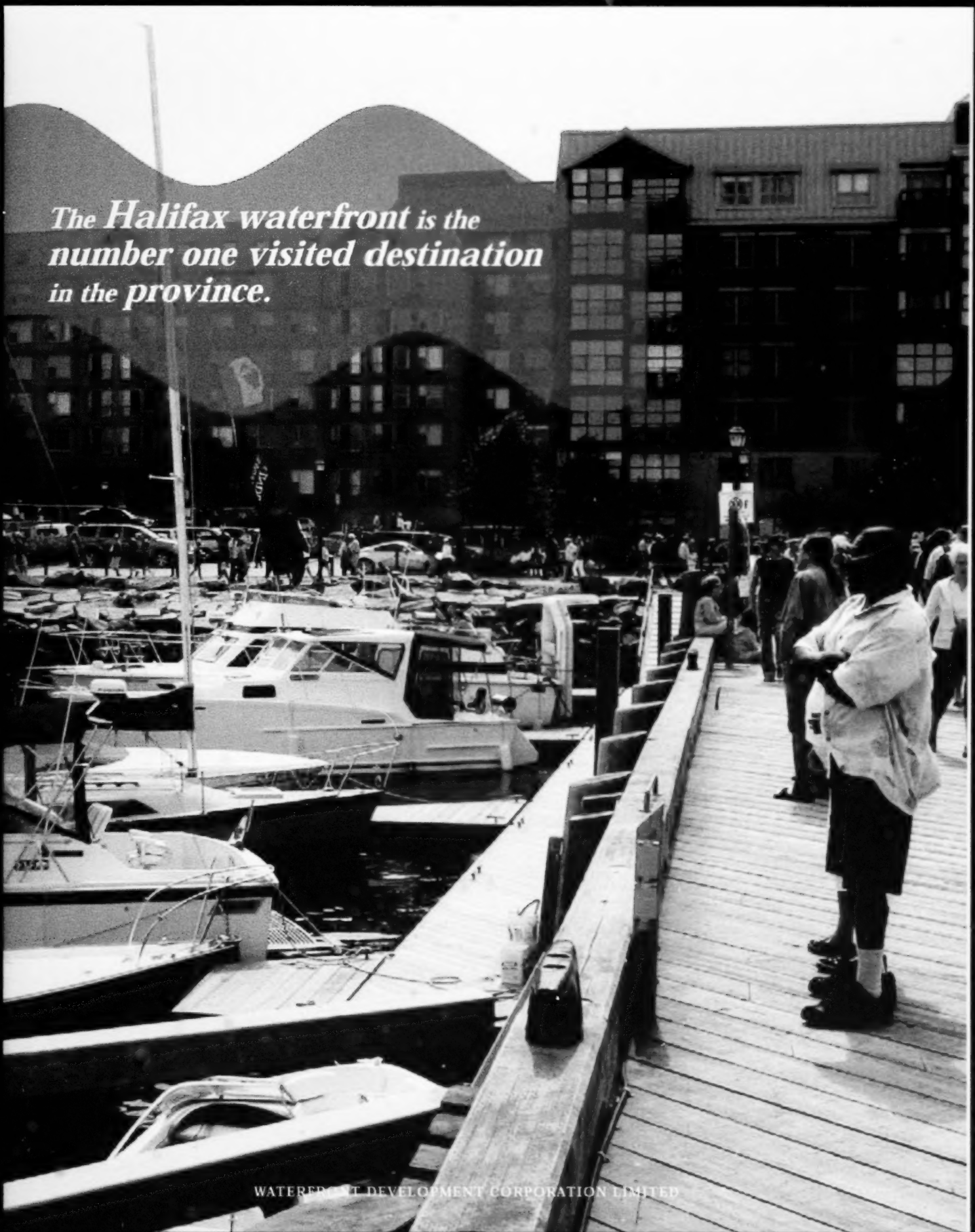
The Corporation continues to liaise with HRM as the recommendations of the Harbour plan are implemented. During the year WDCL staff reviewed a number of proposed land-use issues on harbourfront lands and made presentations to provincial departments on recommended best use and development and policy alternatives. The Corporation continues to monitor issues relating to the preservation and enhancement of industrial uses of lands surrounding Halifax Harbour.

George's Island

WDCL continues to support the completion of George's Island as a major attraction within Halifax Harbour. Dialogue continues with a range of federal representatives encouraging the completion of the project.

HPA Water Lot Agreement

In 2006-2007 the Corporation continued negotiations with the Halifax Port Authority relating to resolution of ownership of a number of post confederation water lots. An interim public use agreement for these sections of properties was negotiated between WDCL and HPA to allow for several projects to proceed. Completion of the final agreement is anticipated in 2007-2008.


The Halifax waterfront is the
number one visited destination
in the province.
WATERFRONT DEVELOPMENT CORPORATION LIMITED

Property Management

Maintenance

Maintenance of parking lots, leased properties, and public facilities has been kept to a high standard. Continued emphasis and investment in landscaping, security and safety has improved the overall experience for the public visiting the three waterfront parking areas in Bedford, Dartmouth and Halifax.

Lunenburg

On behalf of the Government of Nova Scotia, WDCL acquired a major portion of the Lunenburg waterfront in 2005. Since that acquisition, significant progress has been made toward achieving the goals of the local community and the Province. With a focus on maintaining marine-related business activity on the waterfront, and establishing a viable business model with a goal to allow a local entity to take over management of the properties. Consultants have provided valuable advice for achieving these goals, and a comprehensive business plan was adopted; leasing and sale of properties is proceeding according to this plan. At year-end, agreements had been reached on two properties, and negotiations were underway on three others.

A committee of representatives from the Office of Economic Development, WDCL, and the Lunenburg Waterfront Association Inc. provides guidance to WDCL's Board of Directors on property management issues as well as future development.

Events, Marketing and Communications

Events

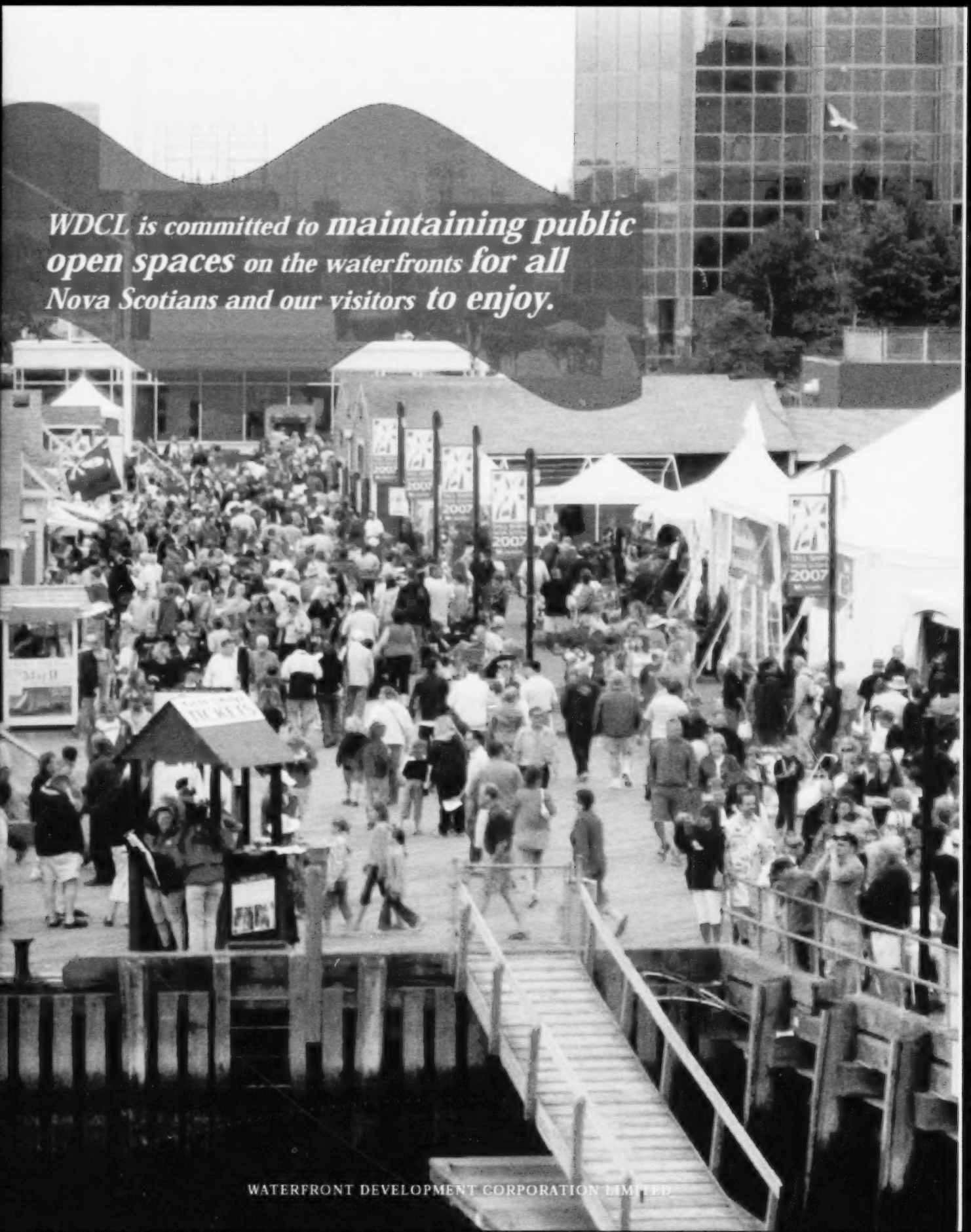
Economic impact analysis has demonstrated that one of the largest economic impacts of the Corporation's development and investment initiatives has been the ability to attract visitors from outside of the province.

As a result, creating and fostering events on the waterfronts has become an increasing part of WDCL's business plan. Two of the main initiatives include Tall Ships and Halifax Harbour Festival.

In 2006, WDCL commissioned a business plan to evaluate a long-term approach to hosting Tall Ship events in Nova Scotia. The plan concluded that Tall Ship events could be held every three years, and would be accepted by the local and provincial market and attract visitors to the province. The economic impact of Tall Ships events hosted in Nova Scotia is significant to the capital region and to ports across the province. The plan also outlined that the ratio of funding support would need to be shared between three levels of government, corporate partners and the public, in order for the events to remain viable. While the goal of the business plan is to work towards a sustainable event, investments are required by the government in order to be successful. The estimated economic impact of the event planned for Summer 2007 is an incremental $15 million.

In 2006, the second annual Halifax Harbour Festival was held to celebrate living, working and playing around the Halifax Harbour. Waterfront stakeholders were engaged to participate as sponsors, exhibitors and supporters. As a new concept, the Festival is still in its infancy, but will require increased support from HRM and others to be viable.

Additionally, between February and April more than 30 events were held on the Bedford, Dartmouth and Halifax Harbourwalks. These events ranged from small to large but demonstrate the attractiveness of our waterfronts to community and private organizations. Some of these included: Bluenose International Marathon; SummerFest Canada Day celebrations; Canada Day celebrations; Nova Scotia Designer Crafts Council Show of Hands Summer Craft Show; alFresco filmFesto; Natal Day celebrations, and the International Buskers Festival.


WDCL is committed to maintaining public open spaces on the waterfronts for all Nova Scotians and our visitors to enjoy.
WATERFRONT DEVELOPMENT CORPORATION LIMITED

Marketing and Communications

A variety of marketing initiatives were undertaken by the Corporation to increase overall awareness and access to information. The Corporation is active in sponsorships of events along the waterfronts which provide family-oriented activities and events. The value of these sponsorships is estimated to be $30,000 per year, in addition to the contribution provided as a pioneer sponsor of Theodore Too. To commemorate the 30th anniversary of the Corporation in 2006, WDCL has commissioned a book about the Halifax waterfronts from its creation through to present day. The book will be complete in Summer 2007.

Outlook for the Future

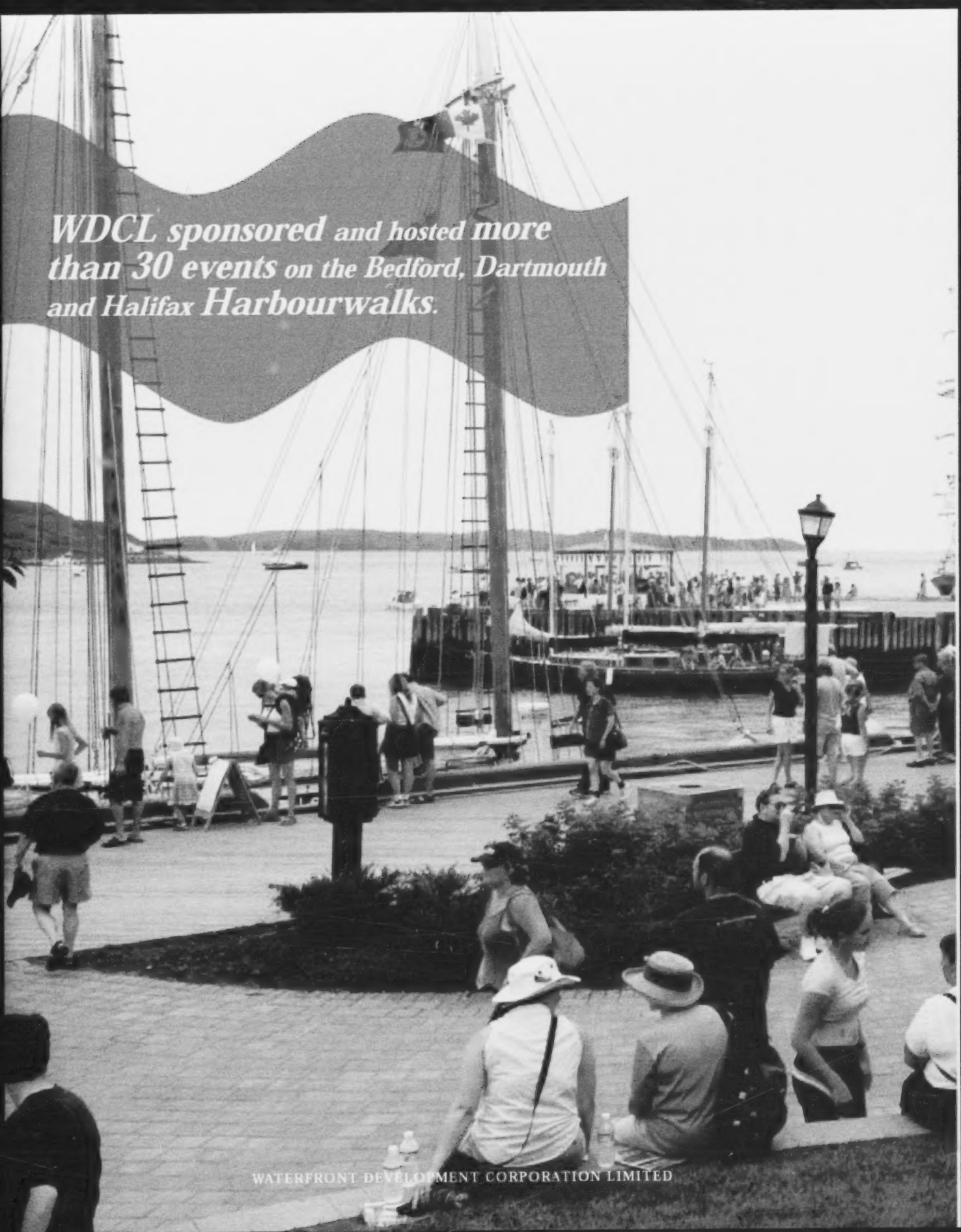
The past 30 years have demonstrated that when it comes to the sea and the land adjoining it, Nova Scotians have the vision and will to achieve great things. With the variety, quality and scale of projects scheduled for the coming years there is the opportunity to go to the next level in building upon past investments and achievements.

The Queen's Landing project alone will create an international Star Attraction destined to more than double visitations to the Maritime Museum of the Atlantic. Salter Block will add additional high quality public space and commercial and residential development. Moving forward with the planning for Bedford's Phase II will allow the community to create additional public access to Bedford Basin and private development opportunities. Determining the right development mix for Dartmouth Cove will be an important stimulus for downtown Dartmouth.

A well planned and managed Tall Ships program and the creation of province wide Tall Ships festival has the potential to further anchor Nova Scotia as the Tall Ships capital of North America.

The Corporation has recently been given the mandate to ensure that provincial interest in the industrial development of the Harbour is exercised through the proper disposition of provincial lands around the Harbour. This, together with a Regional Harbour Plan being coordinated by HRM, will provide the basis for best use of all public harbourfront lands.

The Corporation would like to thank the many stakeholders, tenants, partners and voluneers within our waterfront districts for their support and commitment. Our board of dedicated volunteers looks forward to working with the communities and stakeholders to bring the waterfronts to the community and community to the waterfronts for many more years to come.

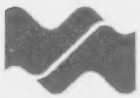

WDCL sponsored and hosted more than 30 events on the Bedford, Dartmouth and Halifax Harbourwalks.
WATERFRONT DEVELOPMENT CORPORATION LIMITED

Waterfront Development Corporation Limited

Consolidated Financial Statements

March 31, 2007

Waterfront Development Corporation Limited



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Schedule of Revenue and Expense for the Lunenburg Real Estate and Development Projects	15
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Grant Thornton LLP
Chartered Accountants
Management Consultants

Grant Thornton

Management Statement on Financial Reporting

To the Shareholder of
Waterfront Development Corporation Limited

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Management is also responsible to ensure that all information reproduced in the annual report is consistent with the statements. In carrying out its responsibilities, management maintains appropriate systems of internal controls designed to ensure that the financial information produced is relevant and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. A Finance, Audit and Risk Management Committee of non-management Directors is appointed by the Board to review the consolidated financial statements in detail with management and to report to the Directors prior to their approval of the consolidated financial statements for publication. The Directors have established standards of conduct for employees to prevent conflicts of interest and unauthorized disclosure of confidential information.

The shareholder's auditors review the consolidated financial statements in detail and meet separately with both the Finance, Audit and Risk Management Committee and management to review their findings. Grant Thornton LLP, Chartered Accountants report directly to the shareholder.

Bill Campbell
Acting President
May 4, 2007

Eric Thomson
Chair
Board of Directors
May 4, 2007

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Grant Thornton LLP
Chartered Accountants
Management Consultants

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Auditors' Report

To the Shareholder of
Waterfront Development Corporation Limited

We have audited the consolidated balance sheet of **Waterfront Development Corporation Limited** at March 31, 2007 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Nova Scotia
May 4, 2007

Grant Thornton LLP
Chartered Accountants

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Waterfront Development Corporation Limited

Consolidated Statement of Earnings and Retained Earnings

Year Ended March 31	2007	2006
Revenue		
Rents	$ 3,262,729	$ 3,138,337
Recoveries	241,851	58,607
Interest income	533	2,769
Other income	27,050	7,594
Provincial grant revenue	178,400	133,400
	3,710,563	3,340,707
Property expenses		
Property taxes	23,702	20,078
Operating	769,358	739,880
Depreciation and amortization	260,432	309,875
	1,053,492	1,069,833
Halifax Harbour Festival		
Revenue (Page 14)	21,163	10,950
Expense (Page 14)	113,715	127,672
	(92,552)	(116,722)
Lunenburg real estate and development projects		
Revenue (Page 14)	756,469	227,127
Expense (Page 14)	756,469	227,127
	-	-
Tall Ships revenue	-	-
Tall Ships expense	112,677	-
	(112,677)	-
Income before other items	2,451,842	2,154,152
Corporate expenses		
Directors' fees and expenses	70,657	69,177
Doubtful accounts expense	20,132	8,025
Office operations	107,286	86,141
Professional fees		
Audit	15,675	18,455
Programs	274,312	82,661
Consulting	60,827	-
Legal fees	16,728	87,391
Salaries, contracts and benefits	565,634	514,019
Waterfront promotions and public relations	73,600	38,613
	1,204,851	904,482
Loan interest	236,649	209,562
Depreciation on facilities for public access	90,188	80,357
Contribution to non-owned infrastructure	-	51,195
	326,837	341,114
Net earnings before appropriations	920,154	908,556
Transfer (to) from Special Events and Festivals Fund (Note 8)	(116,722)	116,722
Transfer to Infrastructure Renewal Fund (Page 15)	(400,000)	(400,000)
Net earnings	403,432	625,278
Retained earnings, beginning of year	4,907,240	4,281,962
Retained earnings, end of year	$5,310,672	$4,907,240

See accompanying notes to the consolidated financial statements.

Waterfront Development Corporation Limited

Consolidated Balance Sheet

March 31	2007	2006
Assets		
Current		
Cash and cash equivalents	$ -	$ 152,764
Receivables - trade	1,531,724	497,295
Notes receivable (Note 3)	2,846	9,093
Prepaids	30,472	46,270
Deferred costs	371,480	114,025
	1,936,522	819,447
Notes receivable (Note 3)	-	2,846
Real estate and development projects (Note 4)	33,001,763	33,018,845
Deferred costs	46,152	-
Deferred pension costs	6,349	7,256
	$ 34,990,786	$ 33,848,394
Liabilities		
Current		
Bank indebtedness	$ 228,475	$ -
Demand loan (Note 6 (i))	2,885,000	-
Payables and accruals	897,985	425,239
Deferred revenue (Note 5)	177,609	468,553
	4,189,069	893,792
Deferred capital grant related to Lunenburg real estate and development projects	471,416	-
Deferred revenue (Note 5)	2,453,668	2,459,977
Deferred contribution related to Lunenburg real estate and development projects (Note 14)	4,641,990	5,500,000
Loans payable (Note 6 (ii))	1,095,647	3,895,647
	12,851,790	12,749,416
Shareholder's Equity		
Capital stock (Note 7)	3	3
Contributed surplus	13,747,826	13,747,826
Special Events and Festivals Fund (Notes 6 and 8)	250,000	133,278
Infrastructure Renewal Fund (Note 9 and Page 15)	2,830,495	2,310,631
Retained earnings	5,310,672	4,907,240
	22,138,996	21,098,978
	$ 34,990,786	$ 33,848,394

Commitments (Note 11)
Contingencies (Note 13)

On behalf of the Board

Director

Alan T. Barkhouse

Director

See accompanying notes to the consolidated financial statements.

Waterfront Development Corporation Limited

Consolidated Statement of Cash Flows

Year Ended March 31	2007	2006
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings before appropriations	$ 920,154	$ 908,556
Depreciation and amortization	350,620	390,232
	1,270,774	1,298,788
Change in non-cash operating working capital (Note 10)	(848,585)	(622,913)
	422,189	675,875
Financing		
Interest earned on Infrastructure Renewal Fund	119,864	68,127
Decrease in notes receivable	9,093	61,075
Increase in demand loan	2,885,000	-
Decrease in loans payable	(2,800,000)	(1,400,000)
	213,957	(1,270,798)
Investing		
Purchase of equipment	(177,287)	(18,085)
Purchase of real estate and development projects, net	(1,048,845)	(5,641,499)
Sale of Lunenburg real estate	800,000	-
Deferred revenue	(297,253)	797,097
Deferred capital grant	506,000	-
Deferred contribution related to real estate and development projects in Lunenburg	(800,000)	5,500,000
	(1,017,385)	637,513
Net (decrease) increase in cash and cash equivalents	(381,239)	42,590
Cash and cash equivalents, net of bank indebtedness		
Beginning of year	152,764	110,174
End of year	$ (228,475)	$ 152,764

See accompanying notes to the consolidated financial statements.

Waterfront Development Corporation Limited

Notes to the Consolidated Financial Statements

March 31, 2007

1. Nature of operations

The Corporation was declared a Provincial Crown Corporation by order of His Honour the Lieutenant Governor on March 30, 1976.

The Corporation's mission is to service as champion of a dynamic vision and to plan, coordinate, promote and develop properties, events and activities on designated waterfronts around Halifax Harbour and other locations as determined by the shareholder as detailed in the order in Council No 2005-373 dated August 19, 2005.

On September 20, 2005, the Corporation purchased significant holdings in the town of Lunenburg, as well as a numbered company 3104102 N.S. Limited, which held additional properties in the town. This was done in cooperation with the Province to protect the working waterfront in Lunenburg.

2. Summary of significant accounting policies

Basis of accounting
These financial statements are prepared on a consolidated basis. The Corporation holds certain real estate assets through 3104102 N.S. Limited which is consolidated.

Revenue recognition
Rent and recovery revenues are recorded on an accrual basis as earned.

Revenue generated as a result of property development is applied as a reduction in the cost. The Corporation receives amounts from third parties for dumping fill on a Corporation property. These amounts have been offset against accumulated development costs related to the property and the excess has been recorded as deferred revenue.

Government assistance for capital projects is accounted for as a deferred capital grant. The grant is amortized and taken into income at the same rate as amortization expense on the assets to which the grant relates.

Income taxes
As a Provincial Crown Corporation, the Corporation is exempt from income taxes under the provisions of the Income Tax Act.

Depreciation
All expenditures directly related to acquisition, renovation and development are included in the cost of real estate.

Building and equipment
Assets are depreciated on a straight line basis over their useful life, but not greater than 50 years, at rates between 2% and 33.3% per annum.

Long-term lease
The cost of the lease referred to in Note 4 is amortized over its term.

Waterfront Development Corporation Limited

Notes to the Consolidated Financial Statements

March 31, 2007

2. Summary of significant accounting policies (continued)

Real estate and development projects
On an annual basis, the Corporation reviews the carrying amounts of properties held and used in the fulfilling of its mandate. This includes both revenue producing properties as well as properties held for the greater public interest.

If a change in circumstances or occurrence of particular events indicates that such carrying values may be impaired, the amount of the loss is determined by deducting the asset's fair value (as determined by an independent appraisal or comparison to objective market values of comparable properties) from its carrying value.

There are ongoing negotiations for potential development projects on the Bedford, Dartmouth, Halifax and Lunenburg waterfronts. The outcome of these negotiations and the possible financial impact on fair market value of the existing land and buildings is indeterminable at this time.

Non-owned infrastructure
The Board of Directors approves expenditures related to improvements to facilities for public access which are not owned or leased by the Corporation. These expenditures are expensed as incurred.

Use of estimates
In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

Cash and cash equivalents and bank indebtedness
Cash and cash equivalents, net of bank indebtedness, is comprised of cash on hand and cash held in banks.

Financial instruments
The fair value of cash and cash equivalents, receivables, payables and accruals, and loans payable approximate their carrying amounts because of their short term to maturity.

Receivables are subject to credit risk. In management's opinion these risks are not significant.

Waterfront Development Corporation Limited

Notes to the Consolidated Financial Statements

March 31, 2007

3. Notes receivable

	2007	2006
Note receivable bearing interest at 9%, repayable in blended monthly payments of $253, maturing March 2008.	$ 2,846	$ 5,502
Note receivable, repaid in the current year	-	6,437
	2,846	11,939
Less: Current portion	2,846	9,093
	$ -	$ 2,846

4. Real estate and development projects

	Cost	Accumulated Depreciation	2007 Net Book Value	2006 Net Book Value
Facilities for public access	$ 6,869,393	$ 1,711,145	$ 5,158,248	$ 5,248,436
Real estate and development projects				
HRM	28,640,707	5,439,182	23,201,525	22,270,409
Lunenburg (Note 14)	4,700,000	58,010	4,641,990	5,500,000
	33,340,707	5,497,192	27,843,515	27,770,409
	$ 40,210,100	$ 7,208,337	$ 33,001,763	$ 33,018,845

Included in the cost of real estate is a prepaid long-term lease from the Federal Department of Public Works for a term of 45 years from 1977, with three ten-year renewal options.

5. Deferred revenue

	2007	2006
Current		
Deposits for project developments and programs	$ 177,609	$ 222,608
Lunenburg operations	-	245,945
	$ 177,609	$ 468,553
Long-term		
Bedford infill	$ 2,230,858	$ 2,341,462
Amount for development of Halifax waterfront (Note 11 (iii))	222,810	118,515
	$ 2,453,668	$ 2,459,977

The Corporation receives amounts from third parties for dumping fill in Bedford. The intent is to develop the property and utilize this long-term deferred revenue in that development over future periods.

In the current year, amounts expended on the Bedford infill exceeded amounts received and, therefore, the deficiency was deducted from the deferred revenue.

Waterfront Development Corporation Limited

Notes to the Consolidated Financial Statements
March 31, 2007

6. Credit facility

(i) The Corporation's previous credit facilities expired on February 15, 2007. On that date the Corporation entered into a new credit agreement with the Royal Bank of Canada. The new agreement provides an available credit facility of $3.6 million at the Bank's prime rate. As at year end $2,885,000 was drawn down against this facility.

The Corporation is currently in the process of arranging for a $6 million facility at the Royal Bank of Canada's prime rate less 1.125%. This facility would be guaranteed by the Province of Nova Scotia and would replace the existing $3.6 million facility.

(ii) Loans payable	2007	2006
Capital projects	$ -	$ 2,800,000
Office of Economic Development, non-interest bearing	1,095,647	1,095,647
	$ 1,095,647	$ 3,895,647

The loan from the Office of Economic Development is secured by a charge over specific real property and is to be repaid from excess funds generated from sales of real estate development.

Cash flows resulting from the following have been used to repay the loans related to capital projects. If segregated funding was required or costs incurred to finance related developments and activities, the loans payable for capital projects would have to increase from $2,885,000 to $8,196,353 and total loans to $9,292,000 through additional borrowings and other available funding as illustrated below:

	2007	2006
Capital projects:		
Loan payable	$ 2,885,000	$ 2,800,000
Bedford infill (Note 5)	2,230,858	2,341,462
Special Events and Festival Fund (Note 8)	250,000	133,278
Infrastructure Renewal Fund (Note 9 and Page 5)	2,830,495	2,310,631
	8,196,353	7,585,371
Office of Economic Development, non-interest bearing	1,095,647	1,095,647
	$ 9,292,000	$ 8,681,018

Waterfront Development Corporation Limited

Notes to the Consolidated Financial Statements

March 31, 2007

7. Capital stock

	2007	2006
Authorized:		
5,000 shares without nominal or par value		
Issued:		
3 shares	$ 3	$ 3

The shares are held in trust by one representative of the Province for the Queen in Right of the Province of Nova Scotia.

8. Special Events and Festivals Fund

The Special Events and Festivals Fund has been established to provide a source of initial funding for future events and festivals that the Corporation promotes.

The Corporation has not established a separate cash investment account for this Fund. All excess cash of the Corporation has been applied against the capital project loan payable (refer to Note 6). Any expenditure from this Fund will be funded from the current credit facility.

9. Infrastructure Renewal Fund

The Infrastructure Renewal Fund (Page 15) shall be used for the renewal or replacement of public use facilities such as wharves, boardwalks, and parks, when such work is required as a result of aging. In general, the Fund will not be used for ordinary repairs necessitated by other causes, or for repair/replacement of minor portions of such assets. Exceptions may be made when deemed appropriate by management in consultation with the Board. Interest has been allocated to the Fund based on the interest rate paid on the credit facility.

The Corporation has not established a separate cash investment account for the Infrastructure Renewal Fund. All excess cash of the Corporation has been applied against the capital project loan payable (refer to Note 6). Any expenditure from this Fund will be funded from the current credit facility.

10. Supplemental cash flow information

	2007	2006
Change in non-cash operating working capital		
Receivables - trade	$ (1,034,429)	$ (205,485)
Prepaids	15,798	(22,316)
Deferred costs	(303,607)	(72,135)
Deferred pension costs	907	907
Payables and accruals	472,746	(323,884)
	$ (848,585)	$ (622,913)
Interest paid	$ 236,649	$ 209,562

Waterfront Development Corporation Limited

Notes to the Consolidated Financial Statements
March 31, 2007

11. Commitments

(i) The Corporation has entered into a lease agreement for the water lot portion of Queen's Wharf. Minimum lease payments over the next five years, assuming renewal at similar terms, are as follows:

2008	$ 1,146
2009	1,146
2010	1,146
2011	1,146
2012	1,146

(ii) The Corporation has agreed to provide compensation, not to exceed $22,000, to replace fish habitat displaced as a result of the Salter Street Development.

(iii) The Corporation has entered into an agreement with an existing combined residential and commercial building on the Halifax waterfront to allow partial early conversion of the complex into condominium units. The Corporation will receive total compensation of $500,000 over a five year period, the timing of payments being contingent on the sale of condo units. Payment will be either by way of direct cash payment to the Corporation or by the construction of amenities on the Halifax waterfront by the vendor of the condo units. The Corporation has committed to use the direct cash compensation received on the construction of amenities on the Halifax waterfront. In the current fiscal year, the Corporation has recognized $227,760 as deferred revenue and expended $4,950 on amenities, for a net deferred balance of $222,810 (refer to Note 5).

(iv) Subsequent to year end the Corporation signed a Memorandum of Understanding (MOU) for the purchase of certain waterlots from the Halifax Port Authority. The purchase price for these lots is approximately $189,000.

(v) The Corporation is in the process of having a draft Memorandum of Understanding (MOU) approved for the use of certain waterlots owned by the Halifax Port Authority (HPA). This MOU is broadly based and intended to be applied to a particular lot presently being negotiated as well as future arrangements. The annual rent for the particular lot currently being discussed is expected to be approximately $25,000. It is expected that these funds, rather than being paid to HPA, will be set aside in a "Public Amenity Fund" to be used for the improvement of public space on the Halifax waterfront as mutually agreed to by the Corporation and HPA.

(vi) The Corporation has entered into an agreement with Sail Training International for the purpose of securing Halifax as a host port for The Tall Ships Atlantic Challenge 2009. The fee will be approximately €120,000. Of this, €30,000 has been billed and paid to date.

Waterfront Development Corporation Limited

Notes to the Consolidated Financial Statements

March 31, 2007

12. Employee pension plan

The Corporation is a participant in a multi-employer pension plan, the Nova Scotia Public Service Superannuation Plan. The Plan required payments for past service benefits which are being amortized to earnings over the expected average remaining service life of the employee group.

The most recent actuarial valuation of this Plan was completed as at December 31, 2005 and includes pension assets of $3,431,682,000, and pension liabilities of $3,899,062,000, resulting in an unfunded liability of $467,380,000. The amount applicable to the Corporation is not determinable and should not be significant as its participation includes only eight employees.

13. Contingencies

(i) Certain of the Corporation's claim over post-confederation waterlots are being disputed by the Halifax Port Authority (HPA). The Corporation and HPA have, in principle, approved a settlement which will involve WDCL purchasing certain lands and leasing others based upon appraisals. A formal Memorandum of Understanding will be agreed to and executed to detail the nature of the transactions – (Note 11 (iv) and (v)).

(ii) Contracts exist with developers respecting the Salter Street Development and Queen's Landing/Maritime Museum expansion project which may require a future commitment of the Corporation. The potential future commitment of the Salter Street Development is $1,000,000 and the Queen's Landing/Maritime Museum expansion project amount is undeterminable at this time.

(iii) The Corporation has been named in a claim presented to the courts, claiming breach of contracts in respect of a purchase and sale agreement for land in Bedford, Nova Scotia. The outcome is undetermined at this time and no amounts have been recorded in these financial statements.

14. Business acquisition

On September 20, 2005, the Corporation acquired real estate properties in the Town of Lunenburg by way of a 100% share purchase of 3104102 N.S. Limited and direct asset purchases.

The purchase price of $5,500,000 was funded by the Province through a grant. The purchase price was allocated to the assets based on their fair value as determined by management. The allocation was also used to determine the value of the assets in 3104102 N.S. Limited, the wholly-owned subsidiary.

During the year, a formal asset valuation was undertaken and as a result of this valuation, the allocation of the $5,500,000 cost of the Lunenburg assets was changed. The impact was to reduce the cost allocated to the assets and shareholders equity in 3104102 Nova Scotia Limited by $430,212.

Waterfront Development Corporation Limited

Notes to the Consolidated Financial Statements
March 31, 2007

14. Business acquisition (continued)

The following table represents a summary of financial information of the subsidiary as at March 31, 2007:

	2007	2006
Assets	$ 3,019,113	$ 3,449,325
Liabilities	$ 3,129,592	3,158,510
Shareholder's (deficit) equity	(110,479)	290,815
	$ 3,019,113	$ 3,449,325
Revenues	$ 165,219	$ 6,508
Expenses	165,219	6,508
Net earnings	$ -	$ -

The Province has provided funding for operations to cover all costs resulting from operations, as such there were no net cash flows. There were no financing or investing cash flows during the period.

The Lunenburg assets consist of land, buildings and wharves. These assets have been shown as a separate line item within the Real Estate and Development Projects schedule in Note 4 to the financial statements. This is to recognize these assets as a unique group whose title with the Corporation may not necessarily be long term in nature. It is the intention of the Corporation, based on direction from the Province, to transfer these assets to another legal entity pending development of a business plan and certain other arrangements as required by the Province.

15. Related party transactions

During the year the Corporation transacted business with various Departments and Crown Corporations of the Province of Nova Scotia. These transactions included market rent charged to these entities for use of the Corporation's assets. Other revenues received from related parties include operating grants, a capital grant and a reimbursement under an indemnity agreement. Various expenditures were incurred by the Corporation for transactions with these same related parties for a secondment, payroll benefits, consulting and legal services.

Waterfront Development Corporation Limited

Schedule of Revenue and Expense for the Halifax Harbour Festival

Year Ended March 31	2007	2006
Revenue		
Private sponsorship	$ 8,250	$ 8,950
Government grant and sponsorships	500	2,000
Earned income	12,413	-
	21,163	10,950
Expense		
Administration	59,620	77,168
Marketing	17,877	26,740
Venue expenses	36,218	23,764
	113,715	127,672
Excess of expenditures over revenue	$ (92,552)	$ (116,722)

Waterfront Development Corporation Limited

Schedule of Revenue and Expense for the Lunenburg Real Estate and Development Projects

Year Ended March 31	2007	2006
Revenue		
Rents	$ 183,495	$ 30,902
Provincial grant revenue	572,974	196,225
	756,469	227,127
Expense		
Administration	7,858	6,324
Depreciation	58,010	-
Professional fees	105,704	54,688
Property taxes	1,521	816
Operating	583,376	165,299
	756,469	227,127
Excess of revenue over expenditures	$ -	$ -

Waterfront Development Corporation Limited

Schedule of Revenue, Expense and Fund Balance for the Infrastructure Renewal Fund

Year Ended March 31	2007	2006
Revenue		
Interest	$ 119,864	$ 68,127
Net of revenues over expenses	$ 119,864	$ 68,127
Fund Balance, beginning of year	$ 2,310,631	$ 1,842,504
Net of revenues over expenses	119,864	68,127
Transfer from operations	400,000	400,000
Fund Balance, end of year	$ 2,830,495	$ 2,310,631

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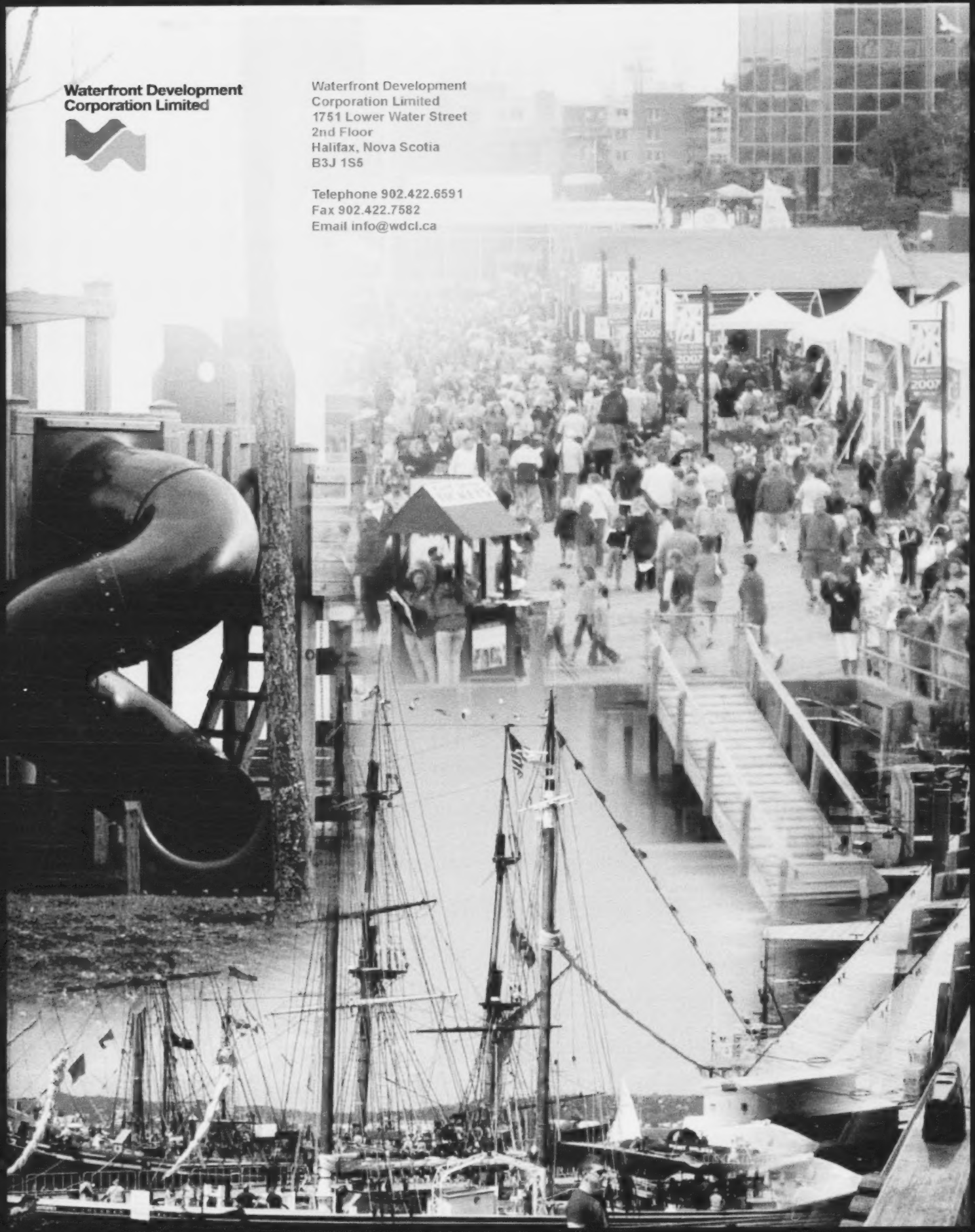

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